

Congress of the United States
Washington, DC 20515

July 25, 2002

The Honorable W.J. "Billy" Tauzin, Chairman
House Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Tauzin,

Since February we've written to you no less than four times to request hearings and a full investigation into the business conduct of energy suppliers. We have not received a formal or informal reply to any of our inquiries and so once again we are requesting hearings and a full investigation on this critical issue.

In the June 20, 2002 edition of National Journal's *CongressDaily AM*, a story ran that "House Republicans agreed Wednesday [June 19, 2002] to hold a hearing to examine whether trading firms such as Enron Corp., may have illegally manipulated electricity prices in the West." The article went on to report, "The hearing would serve as a springboard for a broader inquiry into price manipulation and FERC's ability to oversee the market, [Energy and Commerce Committee Chairman] Tauzin said."

You have been quick to dispatch the Committee's investigative resources to pursue inquiries into Arthur Andersen, ImClone, Global Crossing, and WorldCom, and you've made strong public statements condemning corporate malfeasance at these firms. By and large, energy firms, including Enron – the company that began the crisis of confidence in our markets, have been given a pass.

After your public comments on June 19th, we hoped you would focus your attention on these companies. Now, more than a month after your public statements, we must ask when will you follow through on your commitment to investigate and hold hearings?

The allegations of corporate misbehavior in energy markets go beyond one or two companies. This is a cancer that has metastasized throughout the industry. As we've pointed out repeatedly, the amounts of money involved are not trivial. Here are some recent examples of what companies are admitting to:

- CMS Energy Corp. inflated revenue by \$4.4 billion over an 18-month period. (*Associated Press*, "CMS Restructures Energy Market Unit," June 26, 2002.)
- Reliant Energy and Reliant Resources each restated their revenues for the years 1999 through 2001, reducing them by \$7.8 billion and \$7.9 billion respectively because the companies had engaged in deceptive wash transactions. (*The Wall Street Journal*, "Reliant Resources Make Restatements," July 8, 2002.)
- Duke Energy admitted that it had engaged in 23 wash transactions that inflated its revenues by \$1 billion between 1999 and 2001. (*The Wall Street Journal*, "Duke Made Sham Deals that Boosted Trading Volumes," July 17, 2002.)

The significance of the transactions goes beyond the numbers. Energy companies clearly meant to deceive. They've admitted to the schemes by name. What we don't know is what effect these transactions had on the market and on energy prices. Doubts about the legality of many transactions have caused the stock prices and the credit ratings of major energy firms to fall precipitously. The loss

of confidence is forcing many companies to scale back on the construction of new plants, particularly in the West where new generating plants will be needed in future years.


Mr. Chairman, the Committee must and should be engaged on this issue. The Federal Energy Regulatory Commission's (FERC) investigation has not prompted any significant action to reform energy markets. In a June 14, 2002 report to Senators Lieberman and Carnahan, the General Accounting Office (GAO) criticized FERC's ability to be an effective regulator. GAO's criticisms do not appear to have cooled an overly cozy relationship between FERC and the companies it regulates. In remarks to the National Energy Marketers Association on June 20, 2002, Commissioner Nora Brownell quipped that there should be a "confessional" for recalcitrant energy companies to admit their wrongdoing and receive absolution from FERC.

Consumers and investors need and deserve an independent review of the market and only the House Energy and Commerce Committee can provide it. It's our understanding that in early June, FERC transmitted to the Committee documents that it received as part of its inquiry into misconduct in the Western energy market under the condition that the documents be treated confidentially. While majority and minority staffs have had access to these documents, they have not been made available to the rest of the Committee. Given the relevance of these documents to the condition of the Western energy market and their importance to our constituents, we request that you grant us and our staffs immediate access.

As Chair of the Conference Committee on comprehensive energy legislation, H.R. 4, you will lead the Conference's consideration of the Senate bill's electricity title. The House has not developed a position on electricity yet, and the full Energy and Commerce Committee has not held a single legislative hearing. It's premature to proceed on this issue in Conference. We need to fully understand the underlying flaws in our energy markets before we legislate. To have the necessary competence to deal with these problems, our Committee must investigate. We therefore urge you to fulfill your words to have a full and vigorous investigation of the energy market and to hold public hearings.

We await your prompt reply.

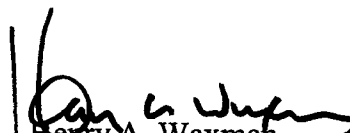
Sincerely,



Anna G. Eshoo
Member of Congress



Lois Capps
Member of Congress



Henry A. Waxman
Member of Congress



Jane Harman
Member of Congress

cc. The Honorable John D. Dingell, Ranking Member,
House Committee on Energy and Commerce

The Honorable Joe Barton, Chairman,
House Subcommittee on Energy and Air Quality

The Honorable Rick Boucher, Ranking Member,
House Subcommittee on Energy and Air Quality